

Message Text

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ACTION ARA-14

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L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11

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FM AMEMBASSY LIMA

TO SECSTATE WASHDC 1495

C O N F I D E N T I A L SECTION 1 OF 2 LIMA 7425

E.O. 11652: GDS

TAGS: EFIN PE

SUBJ: GOP ENACTS TWO LAWS TO TRIM ITS LABOR FORCE

REF: (A) LIMA 5290 (B) LIMA 1513 (C) STATE 208605

BEGIN CONFIDENTIAL

1. SUMMARY: THE GOP PUBLISHED TWO DECREE LAWS ON AUGUST 13 AIMED AT TRIMMING PUBLIC SECTOR LABOR FORCE AND INITIATING REORIENTATION OF FISCAL EXPENDITURES. DL 22264 REVISES THE CENTRAL GOVERNMENT'S 1978 BUDGET AND INCLUDES A REQUIREMENT THAT MINISTERS SUBMIT PLANS TO REDUCE EXPENDITURES IN THEIR SECTORS. DL 22265 SPECIFIES VARIOUS BENEFITS TO GOVERNMENT EMPLOYEES AFFECTED BY THE ANTICIPATED REDUCTION IN FORCE. RELIABLE AND WELL PLACED GOP OFFICIAL INDICATES THAT CUTBACK IN PUBLIC SECTOR EMPLOYMENT AMOUNTS TO 30,000 PERSONS AND RECONFIRMED, IN GENERAL, MAGNITUDES OF FISCAL OPERATIONS PROJECTED FOR 1978. MEASURES DEMONSTRATE GOP APPEARS TO BE SERIOUS IN EFFORTS TO MEET IMF TARGETS, BUT LEFT CAN BE EXPECTED TO EXPLOIT IT POLITICALLY. END SUMMARY.

2. THE NEW 1978 BUDGET LAW. THE GOP PUBLISHED A NEW CENTRAL GOVERNMENT BUDGET LAW FOR 1978 (S.L. 22264) ON AUGUST 13.

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THE ENLARGED 1978 BUDGET LISTS TOTAL EXPENDITURES AT S/358.4 BILLION AS COMPARED TO S/289.7 BILLION IN D.L. 22049 (PUBLISHED DECEMBER 29, 1977). THIS IS FIRST TIME IN RECENT YEARS GOP HAS ISSUED AN ENTIRELY NEW BUDGET LAW FOR A YEAR IN COURSE. PREAMBLE TO D.L. 22264 STATES "IN THE TOTALITY OF ECONOMIC-FINANCIAL MEASURES BEING IMPLEMENTED AT PRESENT A RECOMPOSITION OF THE LEVEL, STRUCTURE AND FINANCING OF PUBLIC EXPENDITURE IS FORESEEN AND THE

RESTRUCTURING OF PUBLIC EXPENDITURE REQUIRES A SUBSTANTIAL REDUCTION IN CURRENT EXPENDITURE IN FAVOR OF INVESTMENT WITH THE PURPOSE OF STIMULATING THE DYNAMIC AGENTS OF ECONOMIC ACTIVITY". THE PREAMBLE ALSO STATES THAT SEVERE AUSTERITY IMPLIES A REDUCTION IN EXPENDITURE ON WAGES, GOODS, AND SERVICES.

3. A REQUIREMENT FOR EXPENSE CUTTING PLANS. ARTICLE 27 OF D.L. 22264 STATES THAT THE "TITULARES DE PLIEGO" (HEADS OF SECTORS, I.E. MINISTERS) HAVE 60 DAYS IN WHICH TO PRESENT A DETAIL OF THE SAVINGS EXPECTED AS A RESULT OF THE PROVISIONS OF THE LAW. THESE PROVISIONS INCLUDE REQUIREMENTS FOR REDUCTIONS IN BUDGETARY ALLOCATIONS FOR PUBLIC SECTOR PRE-INVESTMENT STUDIES AND AUTHORIZATION TO MINISTERS TO REDUCE PERSONNEL, SUPPRESS OR REDUCE ACTIVITIES, COMBINE PUBLIC SECTOR ENTITIES, RATIONALIZE PROCESSING OF DOCUMENTS, FREEZE FUNDS FOR PUBLIC WORKS NOT YET INITIATED, AND REDUCE CURRENT ACCOUNTS TRANSFERS TO PUBLIC INSTITUTIONS AND ENTERPRISES.

4. BENEFITS FOR THOSE AFFECTED BY RIF. DECREE LAW 22265 SPECIFIES BENEFITS TO WORKERS WHO LOSE THEIR JOBS DUE TO REDUCTION IN FORCE TO BE EFFECTED BY GOP PUBLIC SECTOR. PREAMBLE OF THIS DECREE LAW STATES THAT THE RESTRUCTURING OF PUBLIC EXPENDITURES IMPLIES THE ELIMINATION OF ORGANIZATIONS OR THE PARTIAL OR TOTAL ELIMINATION OF PROGRAMS AND THAT ADEQUATE MECHANISMS ARE REQUIRED TO ASSURE THAT UNEMPLOYED PUBLIC SECTOR WORKERS BECOME INCORPORATED INTO

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THE NON-PUBLIC PRODUCTIVE SECTOR OF THE ECONOMY. PUBLIC SECTOR WORKERS WHO ARE RELEASED FROM EMPLOYMENT ARE TO RECEIVE A SUBSIDY FOR EIGHT MONTHS AT A MONTHLY RATE EQUIVALENT TO THEIR LAST MONTH OF PAY. EMPLOYEES WHO ARE ELIGIBLE FOR UNEMPLOYMENT PENSION BENEFITS WILL RECEIVE PENSION BENEFITS IN ADDITION TO THE EIGHT MONTH SUBSIDY AND EMPLOYEES WHO ARE INELIGIBLE FOR SUCH BENEFITS WILL RECEIVE SEVERANCE PAY EQUIVALENT TO FIFTY PERCENT OF ONE MONTH PAY FOR EACH YEAR OF SERVICE. ACCORDING TO D.L. 22265 THE RELEASED EMPLOYEES CAN ALSO OBTAIN BENEFITS IN THE FORM OF LOANS TO PARTICIPATE IN EXISTING BUSINESSES OR TO CREATE NEW ENTERPRISES AND A DISCOUNT OF THE PURCHASE OF FIXED ASSETS OFFERED FOR SALE BY PUBLIC SECTOR ENTITIES. THE LOANS ARE LIMITED TO NOT MORE THAN FIFTEEN MONTHLY WAGE PAYMENTS AND NOT MORE THAN TEN TIMES THE LIMA MINIMUM WAGE (APPROXIMATELY U.S. \$325). THESE LOANS ARE OF EIGHT YEAR TERM WITH USUAL TYPES OF COLLATERAL AND INTEREST RATES (EXCEPT FOR 3 YEAR GRACE PERIOD). PUBLIC SECTOR WORKERS WHO RESIGN PRIOR TO NOVEMBER 30 ARE ALSO ELIGIBLE FOR THE BENEFITS NOTED ABOVE. WORKERS WHO RECEIVE THESE BENEFITS WILL NOT BE ELIGIBLE FOR EMPLOYMENT IN THE PUBLIC SECTOR FOR FIVE YEARS.

END UNCLASSIFIED BEGIN CONFIDENTIAL

5. REVISED PROJECTION OF 1978 FISCAL OPERATIONS. DATA ON FISCAL OPERATIONS PRESENTED IN NEW BUDGET LAW IS NOT SUFFICIENT TO PERMIT CONSTRUCTION BY US OF BASIC SUMMARY CLASSIFICATION OF FISCAL OPERATIONS. HOWEVER, IN CONVERSATION WITH EMBOFFS CENTRAL BANK OFFICIAL CONFIRMED (ON AUGUST 15) THAT THE DATA ON FISCAL OPERATIONS WE OBTAINED ON CONFIDENTIAL BASIS FROM CENTRAL BANK ON JULY 26 (PRESENTED BELOW) WILL BE ALTERED BY LESS THAN ONE BILLION SOLES AND EVEN LESS BY SPECIFIC CATEGORIES. IN ADDITION,

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THESE DATA DO NOT DIFFER SIGNIFICANTLY FROM THE PROJECTION OF FISCAL OPERATIONS MADE PUBLIC BY THE GOP ON JUNE 15 AND REPORTED IN LIMA'S A-60, PAGE 22. THE JULY 26 DATA ARE AS FOLLOWS IN BILLIONS OF SOLES:

	1977	1978
A. CURRENT REVENUE	154.1	252.1
B. CURRENT EXPENDITURE	193.1	281.6
C. CURRENT ACCOUNT SURPLUS	-39.0	-29.5
D. CAPITAL EXPENDITURES	40.1	55.9
E. FINANCING	79.1	85.4
(1) EXTERNAL, NET	34.6	5.9
DISBURSEMENT	57.6	74.5
(PROJECTS)	(11.7)	(20.2)
(OTHER)	(45.9)	(54.3)
AMORTIZATION	-23.0	-68.6
(2) INTERNAL, NET	44.5	79.5
NET BANKING SYSTEM	40.0	72.7

USSR REFINANCING	--	8.8
OTHER (NET)	4.5	-2.0

THE PRESENT PROJECTION FOR 1978 FISCAL OPERATIONS ENTAILS
TOTAL CURRENT PLUS CAPITAL EXPENDITURES OF S/337.5 BILLION
AS COMPARED WITH S/336.8 BILLION PER THE GOP'S JUNE 15
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PUBLIC PRESENTATION.

6. COMMENT: A. THE CHIEF OF ECONOMIC RESEARCH OF THE
CENTRAL BANK TOLD EMBOFFS THAT THE GOP IS ATTEMPTING TO
RESTRUCTURE CENTRAL GOVERNMENT EXPENDITURES. HE ESTIMATED
THAT THE CENTRAL GOVERNMENT EMPLOYE 250,000 PERSONS (EXCLU-
DING MILITARY PERSONNEL) AND THAT EMPLOYMENT IS TO BE CUT
BY 30,000 PERSONS (WITHOUT INDICATING CENTRAL GOVERNMENT/
PUBLIC SECTOR SPLIT). 30,000 FIGURE MATCHES NUMBER REPORTED
REF (C) AND REPRESENTS ROUGHLY 5 PERCENT OF TOTAL PUBLIC
SECTOR WORK FORCE ESTIMATED AT 600,000 (INCLUDING MILITARY).
HE STATED THAT THIS REDUCTION IN FORCE IMPLIED NO NET
SAVING OF CENTRAL GOVERNMENT EXPENDITURES UNTIL THE SECOND
HALF OF 1979 DUE TO THE COST OF SEVERANCE BENEFITS.
HE STATED THAT VARIOUS ONGOING PUBLIC SECTOR INVEST-
MENT PROJECTS PRESENTLY HELD UP BY LACK OF DOMESTIC
FUNDING ENTAIL SUBSTANTIAL CASH FLOW COSTS WITH ALMOST
ZERO BENEFITS AND WOULD BENEFIT FROM THE CUTBACK IN
CURRENT EXPENDITURES AND INCREASED CAPITAL EXPENDITURES.
HE ADDED THAT PUBLIC SECTOR INVESTMENT PROJECTS IN
GENERAL WOULD BE SUBJECT TO RIGOROUS PRIORITY ORDERING.

B. ENERGY AND MINES VICE MINISTER TOLD ECON OFF THAT IN
ADDITION TO BUDGETARY RESTRZINT WHICH WILL FORCE MINISTRIES
AND PUBLIC SECTOR ENTERPRISES TO REDUCE WORK FORCE, EACH
MINISTRY ALSO HAS BEEN INSTRUCTED TO CUT BACK PERSONNEL
TO SPECIFIC LEVEL.

C. REACTION TO THE NEW LAWS HAS FOCUSED ALMOST ENTIRELY
ON GOP'S EFFORTS TO REDUCE PUBLIC SECTOR BUREAUCRACY.
SOCIEDAD DE INDUSTRIES, ONE OF PERU'S MAJOR PRIVATE
SECTOR ORGANIZATIONS, IN WHAT APPEARS TO BE PUBLIC RELATIONS
GIMMICK, PUBLISHED ADVERTISEMENT AUGUST 17 IN SEVERAL LIMA
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DAILIES STATING THAT IT WAS OPENING A SPECIAL REGISTRY TO
ACCEPT MEMBERSHIP OF NEW ENTERPRISES FORMED (EITHER INDI-
VIDUALLY OR CORPORATELY) BY EX-PUBLIC SECTOR EMPLOYEES.

GOVERNMENT CONTROLLED DAILIES HAVE CARRIED NUMEROUS EDITORIALS PRAISING NEW MEASURES AND BARELY STOPPING SHORT OF CHARACTERIZING AS PATRIOTS THOSE PUBLIC SECTOR WORKERS WHO RESIGN VOLUNTARILY. INDEPENDENT WEEKLIES, ON THE OTHER HAND, POINT OUT THAT IN CURRENT RECESSION THE PRIVATE SECTOR CANNOT ABSORB RELEASED PUBLIC SECTOR WORKERS AND THAT CONSEQUENTLY NEW MEASURES WILL ADD TO ALREADY SERIOUS UNEMPLOYMENT PROBLEM. GENERAL PUBLIC'S REACTION TO MEASURES MAY BEST BE REFLECTED IN CARTOON IN "X" MAGAZINE. IT SHOWS EMACIATED-LOOKING CIVILIAN PUBLIC EMPLOYEE BEING HANDED DISMISSAL NOTICE BY SOMEWHAT OVERWEIGHT GENERAL AND SAYS "WHY AM I THE 'UNPRODUCTIVE EXCESS' WHO HAS TO BE FIRED AND NOT YET, MY GENERAL?" LEFT HAS ALREADY SEIZED ON ISSUE AND CAN BE EXPECTED TO EXPLOIT IT IN CONSTITUTENT ASSEMBLY.

D. GOP CLEARLY APPEARS TO BE PUTTING NECK OUT BY ISSUING LAWS AIMED AT DISMISSING MORE WORKERS AT SAME TIME IT FACES LABOR UNREST PARTLY IN SUPPORT OF REHIRING PUBLIC AND PRIVATE SECTOR WORKERS FIRED OVER A YEAR AGO. WHILE NEW MEASURES ARE NOT CLEAR REGARDING NUMBER OF WORKERS TO BE RELEASED NOR IN EFFECT DISMISSALS WILL HAVE ON BUDGET, THE LAWS APPEAR TO DEMONSTRATE THAT GOP IS SERIOUS IN EFFORTS TO MEET IMF TARGETS. SHLAUDEMANN

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